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Understanding Impact Measurement: Findings from the CDFI Fund's Impact Analysis

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Carsey Study's Key Findings

- CDFIs are concentrating lending activity in census tracts with high poverty or unemployment rates, much more so than conventional lenders.
- CDFI lending does not appear to have attracted mainstream lending into these areas but rather fills market gaps for key underserved low-income populations

Carsey Study's Key Findings (continued)

- The CDFI industry has grown substantially, leveraging investment and increasing its lending activity even during the recession and changes in the financial environment;
- Generally CDFIs have maintained a sound financial condition.
- CDFI awards have played an important role in growing assets and lending, together with
  - higher deployment rates and
  - business models that meet financing needs with "plain vanilla" products that minimize risks to the borrower, while generating earnings for CDFIs

Carsey Study's Key Findings (continued)

- Analysis of FA program applicant data comparing awardees with non-awardees demonstrates generally positive effects of FA Program awards on key financial metrics.
- Many CDFIs appear to struggle meeting market needs for longer-term loans, a dynamic that may be related to the lack of access to long-term capital in the sector.
- Study was unable to find significant effects of concentrated CDFI investments on a limited number of neighborhood revitalization metrics, although the results are inconclusive.

Carsey Study's Key Findings (continued

- CDFIs are using a broad range of metrics to track success across a range of outcomes, but diversity of missions among CDFIs is a challenge for developing shared impact measurements.
- The CDFI Fund and the industry are making significant progress in collecting more complete information on the CDFI awardee performance and the sector as a whole.
- Expanded coverage of the industry including data collection on all certified CDFIs will fill critical data gaps on the industry's size, composition and performance as a whole.

Recommendations

- Focus additional research on the most effective strategies to support growth of the CDFI industry
- Standardize Definitions – convene a working group
- Develop Shared Measurement Systems, Including Encouraging Fuller Utilization of the Fund's Impact Reporting System

Recommendations con't

- Develop Proxy Measures
- Carry Out Regular External Evaluations
- Create a CDFI "Infrastructure and Innovation" Fund

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The Low Income Investment Fund's Social Impact Calculator

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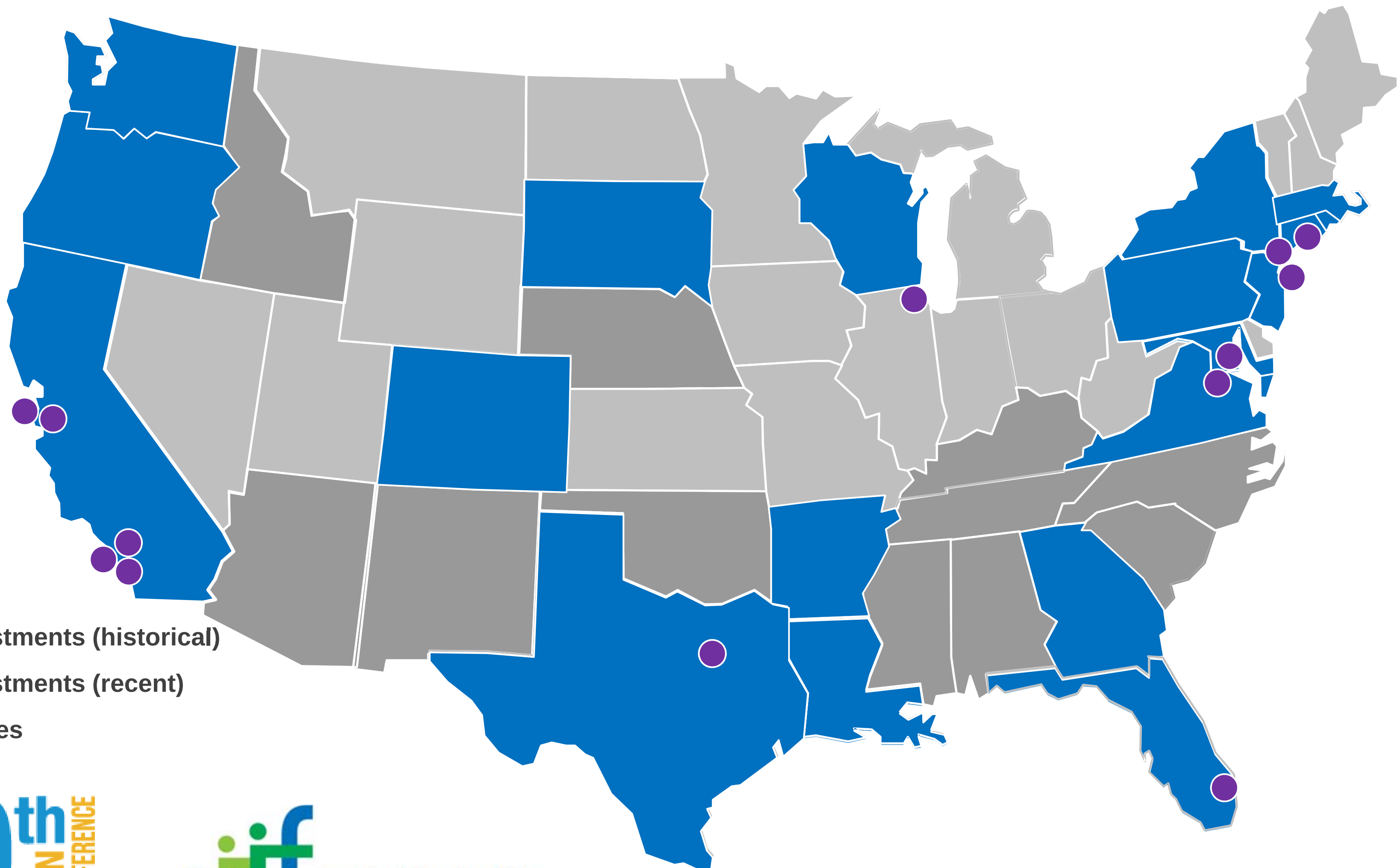
Low Income Investment Fund (LIIF)

- **National CDFI** with 30-year history of bridging capital markets and low-income communities
- **Breadth of work:** community investments, capital fund aggregation, policy advocacy, grant-making
- **Program areas:** affordable housing, equitable TOD, K-12 schools, early childhood education, community health clinics, fresh food

LIIF's Impact

- $1.5 billion invested
- 1.7 million people served
- $30 billion in social impact from projects supported

LIIF's Geographic Footprint



- LIIF's Investments (historical)
- LIIF's Investments (recent)
- PIP Grantees

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Why Measure Impact?

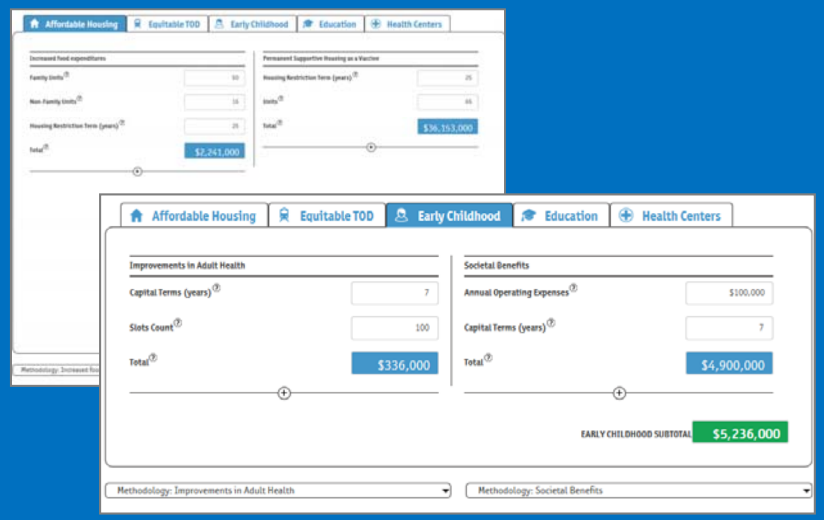
- **Self-assessment:** Determine how well we are achieving our mission
- **Communication:** Develop better ways to express the value of our work
- **Capacity building / Innovation:** Stay current with latest work and research on outcomes/impact

Objectives and approach to developing a new impact tool

- Case-making tool to powerfully express our impact
- Express impact in monetary terms
- Easy to use and practitioner-friendly
- Leverages existing evidence, rather than generating our own
- Advance a broader conversation, beyond LIIF

Social Impact Calculator

- Impact by proxy approach
- 10 metrics across LIIF program areas
- Open source online platform



liifund.org/calculator

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Monetized Social Value Tracked

- **Housing:** income boosts, health improvements
- **Early childhood education:** health improvements, individual and societal benefits
- **K-12 education:** income boosts, societal benefits
- **Health centers:** health improvements, medical cost savings

Advantages and Limitations

- Works for LIIF’s institutional context
- Not using as a decision-making tool (yet)
- Not yet a proper SROI tool (no time value of $, etc.)
- Evidence base that qualifies for this approach is limited (many criteria)

Looking Forward

- Enhance the tool: new metrics, refine methodology, increase usability
- Introduction to new partners, new capital, etc.
- Incorporate calculator into decision-making processes and financial products (potentially)

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Understanding Impact Measurement: Findings from the CDFI Fund's Impact Analysis

PRESENTED BY
Greg Bischak

PRESENTED ON
October,16, 2014

Presentation Overview:

- Discuss two key findings from CDFI Program Impact Study:
  - Importance of key financial ratios and data to profile risk and financial performance of certified CDFIs and awardees.
  - Centrality of transactional data to link geographically specific socioeconomic indicators to markets and communities served;
- Discuss the data needs of key stakeholders, including Congress, OMB, GAO, Treasury and public.
- How do we reduce the data collection burden and improve data quality?
- Discuss most cost effective and accurate way to properly attribute outcomes to loans and investments to avoid overestimates or double-counting impacts.

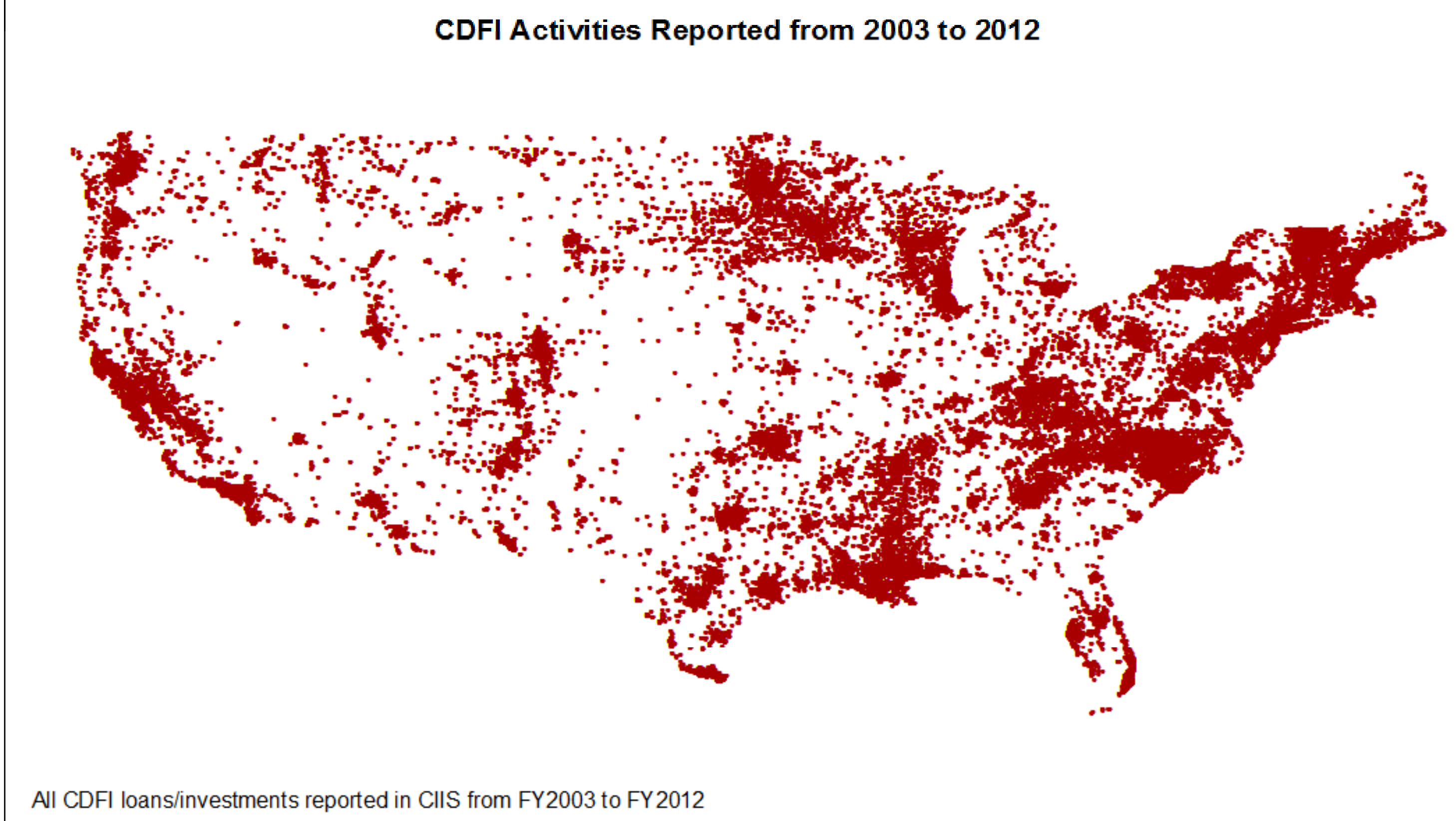
Overview of CDFI Program Evaluation Reports

- The CDFI Fund commissioned the CDFI Financial Assistance (FA) program evaluation:
  - The research was conducted by two consulting groups:
    - **Carsey Institute** report analyzed the financial and social performance of the FA program and its financial assistance awardees;
    - **Socratic Solutions** report analyzed regulated CDFIs to assess their systemic risk of institutional failure and their operational efficiency relative to mainstream financial institutions.

Constituencies for Evaluation

- Congress, OMB, GAO and Treasury have oversight roles in documenting the financial and social performance of the CDFI program and the awardees.
- Evaluation findings demonstrate that CDFIs awardees and the program are fulfilling the mission, serving distressed communities and underserved populations, and are generally operating in a financially sound manner.
- The evaluation highlights the centrality of collecting key financial data on CDFI performance and the need for more data on the whole industry which complements Treasury's considerations:
  - Need for longer time series on CDFIs to establish more detail on financial performance, risk and populations served;
  - Need to collect relevant financial and portfolio data on all certified CDFIs, and the markets that they serve.
  - Ensure that social impacts are attributable to program's support.

CDFIs and Community Impact – CDFI Activities from 2003 to 2012



Source: CIIS-TLR. Please note that the map shows only the lower 48 states to illustrate loan volume and how it outlines the nation's geography. Alaska, Hawaii and Puerto Rico data are included in the summary tables below.

CDFIs Investment by Area Qualification and Target Markets: FY2003 to FY2012

Investment Area	Amount	Percent	Number	Percent
Qualified Tract	$11,830,029,906	61.3%	181,041	57.5%
Other Target Population	$601,155,784	3.1%	19,174	6.1%
Other End-Users	$1,882,351,483	9.8%	15,861	5.0%
Non-Qualified Tract*	$4,946,385,043	25.6%	98,544	31.3%
N/A	$26,494,922	0.1%	292	0.1%
Total	$19,286,417,138	100.0%	314,912	100.0%

Source: CIIS-TLR, Census Tract 2000
Note: Other end users include OTP, LITP, and other end users

*Note: Certified CDFIs are required to invest no less than 60% of their portfolio in their approved Target Markets. Reporting CDFIs exceeded this requirement and made more than 74% of their loans in qualified tracts, low-income target markets and other targeted populations, and the remaining 26% of loans to other areas which allows CDFIs to balance their portfolios and maintain their safety and soundness.

Project Outcomes & Job Estimates

- How to properly attribute the effect of CDFI lending on a project's outcome given that most projects very likely involve other funding sources?
- The effects vary by type of loan (e.g. working capital loan, business expansion, capital and equipment, etc.).
  - For example, many loans are working capital loans that bridge a gap between revenues and expenditures for a period of time.
  - Working capital loan's job creation can be prorated by considering the share of wages and salaries relative to total expenses, and the size of loan relative to these costs.
  - Business expansion loans can be prorated, based on the contribution of the loan to the overall project's costs.
- Proper attribution of effect requires gathering consistent data on loan type, total project costs, firm size, industry, location, etc. but this also imposes more costs for transactional reporting.

Next Steps

- Continued improvement in data collection on CDFI awardee performance;
- Expand coverage of industry, longer time series, more detail on populations served;
- Data collection on all certified CDFIs;
- Expand dialogue with the CDFI industry to develop more common metrics and standards, shared platforms and economies of scale, and proxy measures.
- Enhance data collection and geocoding process by improved interface, processing power, tutorials and helpdesk services.

Next Steps

- Enhance evidence about the performance of CDFIs in meeting the needs of the underserved communities and find alternatives to CRA data;
- Examine role of CDFIs' managerial capabilities to enhance performance;
- Examine factors associated with the growth of CDFIs with detailed, large-scale case studies;
- Examine emerging trends within the financial sector that may be creating new opportunities for technological innovation in the sector.